Expanding Child Care Opportunities

Safe, affordable child care is the most critical element in any successful welfare to work program and among the most important ways State government can assist working families struggling to make ends meet. Culminating nearly two years of study of California's current child care system, the Administration proposes a comprehensive reform of the system as reflected in the Governor's Budget for the Department of Education (SDE) and the Department of Social Services (DSS). The policy objectives for this reform proposal include the following:

- Increasing affordable child care access for over 100,000 children of low-income working families who are now on waiting lists, through more subsidized slots and Before and Afterschool programs.
- Ensuring more equitable access for the neediest families, both CalWORKS and non-CalWORKS families alike.
- Promoting greater cost-sharing for families, particularly those with higher incomes, through a graduated fee schedule that increases over time and generates cost savings that allow other families in greater need to access child care.
- Utilizing existing resources more efficiently to serve more families and curb future program costs.

These objectives are accomplished primarily by modifying current eligibility rules, reimbursement rate limits, and family fees to align more closely with the practices of other large states, while recognizing the higher cost of living in some regions of California. The proposed changes are designed to promote greater cost efficiency within existing resources, which will allow more families to access child care. The Administration has committed that funds saved through these reforms will be used to expand access to safe, affordable child care.

The Governor's Budget reflects significant increases for child care over the current year, as amended by the November 2001 *Proposed Reduction in 2001-02 Spending* plan, including an augmentation of $75 million to Before and Afterschool programs. Expanding Before and Afterschool programs will create an additional 79,000 spaces for school-aged children of working parents, many of whom are currently on waiting lists for subsidized care. Additionally, the Budget proposes $9.8 million in one-time federal funds to be expended over a three-year period for an initiative to provide outreach, training, and incentives to license-exempt providers to increase the quality of non-licensed child care. The focus would include use of the State's Pre-kindergarten guidelines, other early childhood development principles, and health and

Expanding Child Care Opportunities

safety issues including expanded Trustline clearances. This initiative recognizes the current preference in some cultures for use of extended family members and neighbors that has made license-exempt care an integral part of the child care system.

The Administration's proposal offers subsidized care opportunities for an additional 122,000 children of low-income working parents, the largest expansion of services in this State's history. While an estimated 20,000 currently served children may lose services, they are either over age twelve or are in families, for example, which exceed $32,000 to $35,000 in annual income (family size of 4), depending upon the county in which they work and receive care. Still, many of those children could be served through the expanded opportunities offered through the Before and Afterschool Program expansion. Additionally, the Administration's proposal makes a significant investment in quality and safety for the thousands of families choosing license-exempt care.

Need for Reform

The need for subsidized child care was greatly increased with the passage of the State's CalWORKs program in Chapter 270, Statutes of 1997 (AB 1542), which established California's response to federal welfare reform. In an effort to ensure cash assistance recipients were provided with the services necessary to transition to the workforce, Chapter 270 also established a three-staged child care assistance program exclusively for the aided population. Although the statute guarantees child care subsidies for the duration of cash aid and for a two-year transitional period thereafter, it provides no guarantee of continued subsidy beyond the two-year transition period. Continuing the subsidy for all of these families in Stage 3 indefinitely without reform will increase the General Fund costs by $133 million for a total of $388 million in the budget year alone, growing to more than $650 million in 2004-05 and beyond. The federal government does not contribute additional funds to support child care beyond the two-year transition period specifically for this population, so the increased cost would be borne by the General Fund.

Moreover, these costs do not address the needs of the estimated 200,000 to 300,000 children of other low income families currently on waiting lists for subsidized care in the State's traditional child care programs. Absent reforms in the current child care system, there remains an inequity in access to child care that encourages families to seek public assistance in order to access child care subsidies.

Policy Review

As a result of cost and equity concerns, the Administration directed the State and Consumer Services Agency to perform a comprehensive review of child care policy almost two years ago with the objective of identifying policy options for reform. The initial effort was hampered by a lack of available data on the current populations receiving subsidies. As a result, the Administration deferred a reform discussion with the Legislature and continued the status quo by incurring additional costs to extend services for families who exhausted their two-year transitional child care benefit. However, the Administration directed, through provisions in the Budget Act of 2000, that a sampling of caseload be undertaken to determine the characteristics of the population and profiles of care necessary to model the effects of various policy choices to resolve the concerns.

The 2001-02 Governor's Budget continued to advocate a serious reform discussion, with the assumption that the policy review effort would be completed by early Spring. Despite delays in the completion of the survey, a report was released in May 2001. That report identified policy options that could accomplish the Administration's objectives. Moreover, it documented that California, in comparison to other states' eligibility, subsidy, and co-payment policies, provides the most generous package of any other large state. For instance:

- No other state reimburses costs charged by the 93rd percentile of the market.
- No other state offers subsidies to those earning 75 percent of the state's median income.
- No other state provides subsidies for 13-year-old children.
- No other state exempts approximately 80 percent of families receiving services from a share of costs. Every state charges a fee to most every family receiving subsidized services.

Proposed Reforms

The Administration's proposal includes the following specific changes beginning July 1, 2002:

Eligibility Changes

- Reduction in income eligibility from 75 percent of the state median income (SMI) to 66 percent for the four highest cost counties in the Bay area; to 63 percent of SMI for other high cost counties; and 60 percent for remaining counties. (Income limits would be reduced for a family of 4 from about $40,000 statewide to about $35,300 in highest cost counties and to about $32,000 in remaining counties). This recognizes higher cost-of-living and consequent need for child care at relatively higher income levels.

- Elimination of services for 13-year old children and families grandfathered by Chapter 270 whose incomes exceed current eligibility levels. As mentioned earlier, no other state provides subsidies for 13-year old children, and higher income families are less needy than those on waiting lists.

- Simplification of annual family income limit adjustments, including adjustments for different family sizes. Current limits for family sizes are based on annual federal income sampling for a family size of four with limits for other family sizes derived through an algorithm. Median incomes are not tied to the cost of necessities, and the annual sampling is subject to irregular increases and decreases from year to year. The algorithm's adjustments for different family sizes are irregular and have little correlation to family costs, as well. Annual adjustments to eligibility would be based on the change in California Consumer Price Index, and the algorithm would be replaced by a constant increment utilized by the federal government in calculating poverty levels, which is updated annually.

Reimbursement Limit Changes

- Reduction in reimbursement limits from approximately the 93rd percentile of the regional market to the nationwide standard of the 75th percentile of the regional market. This change would allow full reimbursement, net of family co-payments, to all but the highest priced providers in each county, which fully ensures parental choice in line with federal standards.

- Simplification and standardization of market rate limits by eliminating categories or deriving separate rates for infrequently used pricing practices from the most common practices. Currently, over 60 rates are published for each county or sub-county region, many of them based on very low sample sizes, which results in anomalies and may allow some providers to charge excessively. For example, a day of part-time care can be priced more expensively than full-time care in some regions for particular age groups. Standardized methods will provide more statistically reliable market rate limits to be calculated.

Family Fee Changes

- Implementation of a three-step, graduated fee schedule that applies to all families with certain exceptions, beginning with small amounts at the lowest incomes and increasing as family income increases:
  - The first step is intended for the first five years of a family's need when children typically require full-day or more expensive care.
  - The second step begins after five years of care in order to transition a family's payments toward the full cost of care. The second stage applies for two years.
  - A third step applies after seven cumulative years of care if the family still requires assistance. Fees at that level are set with a goal of providing a significant subsidy, proportional to the family's income as a percentage of the full state median income. In other words, a family at 60 percent of the median income would pay approximately 60 percent of the full cost of licensed child care.
- Shifting family fee collections to direct care providers. Shifting collections to direct care providers who must collect fees for non-subsidized children would reduce administrative costs for Alternative Payment Program agencies that administer vouchers. However, rather than capturing these savings, they are retained for improved waiting list management, accountability and compliance efforts as addressed below.

Waiting List Priorities

- Modification of current waiting list priorities. Rather than a strict lowest-income-first approach, families in the lowest tiers of income working full time with children under 5 would have first priority after children at risk of abuse or neglect. The Administration recognizes both the hardships of working full time and raising pre-school age children as well as the need for quality child care for infants, toddlers, and preschool age children as the brain develops. This change will ensure subsidies to the neediest of families, regardless of their prior public assistance status, by leveling the playing field for both working poor and former CalWORKs families when the CalWORKs entitlement period ends.

Compliance, Accountability, and Administrative Efficiency

- ❖ Additional measures are proposed to increase accountability, compliance, and efficiency to ensure subsidies are reserved for the neediest families. For instance, providers would be authorized to collect taxpayer identification or social security numbers to enable access to the Employment Development Department's eligibility verification system and other data bases which would facilitate administrative efficiency and improve compliance.

- ❖ Phase-out of the existing Extended Day or Latchkey program over a three-year period with redirection of the $30 million currently devoted to that program to the Before and Afterschool Learning and Safe Neighborhoods Partnership Program. The Before and Afterschool program leverages local participation, focuses on low-income areas, and is much less administratively burdensome than the current Latchkey program. It is estimated that reinvesting those dollars will serve a net minimum of 15,000 additional children annually. Existing Latchkey programs would have first call on the redistributed funds and may begin to develop the local collaboration efforts now to successfully transition to the newer program by 2005-06.

Estimated Savings

Implementing the changes discussed above in the budget year is estimated to save approximately $400 million in the five primary child care programs:

- ❖ CalWORKs Stage 1, which is administered through the Department of Social Services (DSS).

- ❖ CalWORKs Stage 2 and Stage 3 Setaside, administered by the Department of Education (SDE).

- ❖ The primary general subsidy programs of General Child Care and the Alternative Payment Program, both administered by the SDE.

The Administration proposes to reinvest all of the estimated annual savings to accomplish the goal of increasing the number of slots so that more families may receive assistance. As mentioned earlier, this reform proposal creates opportunities for an additional 122,000 children. This total reflects increases for the Before and

Afterschool Program, net caseload changes in Stages 1 and 2, and new slots created through reinvestment of savings from reforms only for the five major programs for which data was collected. Considering there are several other programs that would also be affected, including Migrant Child Care, additional opportunities will be available within those other programs as well. (See K-12 Education section for a more complete description of caseload changes and how the savings are reinvested.)